



# **NEWCASTLE MUNICIPALITY**

## **COST CONTAINMENT POLICY**

# COST CONTAINMENT POLICY

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## 1. INTRODUCTION

1.1 Section 62(1)(a) of the Municipal Finance Management Act No. 56 of 2003 (MFMA) stipulates that the accounting officer of a municipality is responsible for managing the financial administration of a municipality and must for this purpose take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

1.2 In terms of the legal framework, the elected councils and accounting officers are required to institute appropriate measures to ensure that the limited resources and public funds are appropriately utilized to ensure value for money is achieved. This policy must be read, understood, practiced and implemented against this legislative background.

## 2. OBJECTIVES OF THE POLICY

2.1 The purpose of this Circular is to guide council and officials on cost containment measures that are being implemented in an effort to minimize costs by cutting of unnecessary expenditure, looking at alternative ways to procure goods and services and gradually reduce deficit.

2.2 This policy is intended to ensure:

- 2.2.1 That measures are in place to contain operational costs and eliminate all non-essential expenditure.
- 2.2.2 That excessive and wasteful expenditure has to be reduced, and that increased action be taken to manage unnecessary expenditure
- 2.2.3 That measures are taken in terms of Section 32 of the MFMA in event of unauthorized, irregular, fruitless and wasteful expenditure.
- 2.2.4 That the Strategic Executive Directors and Treasury and Budget Office implemented proper monitoring of non-necessary expenditure
- 2.2.5 That the Mayor exercise proper general political guidance over the fiscal and financial affairs of the municipality

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## 3. SCOPE OF THE POLICY

This policy shall apply to the Council, Executive Committee, Finance Portfolio Committee, Budget Steering Committee, Accounting Officer, Strategic Executive Directors and all officials who have a formal and administrative duty to procure goods and services, manage and control the municipality's budget.

## 4. APPLICABLE LEGISLATION

4.1 Budget process and management is regulated in terms of the Municipal Finance Management Act, Act 56 of 2003 (MFMA):-

4.1.1 Chapter 4 of the MFMA deals with the municipal budgets.

4.1.2 Chapter 7 of the MFMA deals with the responsibilities of the Mayor in relation to budget processes and related matters as well as the fiscal and financial affairs of the municipality.

4.1.3 Chapter 8 of the MFMA deals with the responsibilities of the municipal officials in relation, among others, budgeting processes, revenue and expenditure management and reporting.

4.1.4 Chapter 9 of the MFMA deals with the municipal budget and treasury offices.

4.1.5 The Municipal Finance Management Act, Circular 82, published on 7 December 2018

4.1.6 Municipal Cost Containment Regulations, 2018

## 5. COST DRIVERS IDENTIFIED ARE AS FOLLOWS:

The Budget and Treasury Office has identified areas where non-essential, fruitless and wasteful expenditure is incurred. Listed below are such items and measures need to be applied to ensure these costs are kept at minimal.

### 5.1 COST DRIVERS OF NON-ESSENTIAL EXPENDITURE

**Catering:** No costs shall be incurred in respect of the catering services for any meetings where only municipal officials are in attendance except when a meeting will be in excess of 5 hours. This include meetings such as workshops, courses, committees, forums, recruitment interviews, training courses, hearings, meetings hosted by MANCO including governance committee meetings.

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- ✓ Standard price for catering services must be introduced
- ✓ Entertainment allowance shall be limited to Strategic Executive Directors with the limit of R5000 per SED.
- ✓ No costs shall be incurred by the municipality in respect of alcoholic beverages.
- ✓ No cost shall be incurred by the municipality in respect of team buildings, social functions, year-end functions and retirement farewell's.

5.1.1 **Election Campaigns:** Municipal funds may not be used to fund election campaign activities;

5.1.2 **No expenditure may be incurred by the municipality to support campaign of any political party;**

5.1.3 **Printing & Stationery:** printing of documents must be back-to-back and use of color printing be avoided at all costs, unless in the cases of graphs and necessary documents. Use of electronic files must be encouraged.

5.1.4 **Procurement of lab tops & Computers:** Where possible the warranties on vehicle and computer equipment should be extended instead of procuring new ones.

Buying of computers is recommended compared to lab tops because of their life span.

5.1.5 **Purchasing of Newspapers:** purchasing of newspapers and other publications for municipal employees to limited and stopped, use internet.

5.1.6 **Power Saving:** Municipalities should ensure that awareness is raised with municipal staff so that a high degree of energy saving measures can be introduced, e.g. air-conditioning and lights in buildings are switched off at night and when offices are not in use.

5.1.7 **Purchase of plastic bags:** Avoid non-essential expenses

5.1.8 Every effort must be made to recover debt from consumers before write-off. Municipalities to avoid the excessive usage of debt collectors and improve its internal capacity for debt collection.

5.1.9 Ensure synergy between municipal divisions or departments to avoid duplication of processes and efforts.( dropbox, DRMS, printing of copies while sent as soft copies)

### 5.2 COST DRIVERES OF FRUITLESS AND WASTEFUL EXPENDITURE

5.2.1 **Engagement of consultants:**

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- ✓ Accounting Officers must only contract with consultants after a gap analysis report has confirmed that the municipality does not have the requisite skills or resources in its permanent employment to perform the services required.
- ✓ Accounting officers of municipalities and municipal entities must appoint consultants on a time and cost basis with specific start and end dates.
- ✓ Municipality should develop consultancy reduction plans.
- ✓ Undertake all engagements of consultants in accordance with the SCM Regulations and the municipality's SCM policy.

### 5.2.1.1 Consultants to reduced immediately:

- ✓ Security: use municipal capacity instead
- ✓ Machinery Hire: Plan to procure our own and get our own drivers trained
- ✓ Vehicle: But at least 4 bakkies per year

5.2.2 **Telephone Costs:** Avoid wasteful cost on telecommunication. Review and introduce limits on municipal staff telephones and limiting private call to a reasonable amount. Private call should be deducted from each employee.

Review of cell phone contracts and introduction of cell phone allowance which will depend on the level for each employee

### 5.2.3 Events, advertising and sponsorships

- ✓ Eliminate wasteful expenditure on events, advertising in magazines, television, newspapers etc. where the municipality can use other cost effective means such as websites to market the institution or properly publicize the matters or events under consideration.
- ✓ Limit or stop all unnecessary expenditure on matters such as printing of shirts, hosting of sporting events, festivals and other associated events, lavish functions, and extraordinary costs associated with visits of dignitaries or induction of new councilors.

5.2.4 **Travel and subsistence:** budget to be consolidated to the office of the SED, budget confirmation before trip, SED authorize trip before, use of nominated hotels as per circular 82

5.2.5 **Vehicle Hire:** Introduce measures to control fuel at stores

5.2.6 **Store Items:** Introduce measures to control budget for store items

5.2.7 **Protective Clothing:** Introduce turnaround period time for the procurement of protective clothing.

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Employees should be requested to bring back the old uniform to get a new one.

## 5.2.8 Conferences, meetings, study tours,

- ✓ Employees of municipalities and municipal entities may attend conferences hosted by professional bodies or non-governmental institutions (external conferences) held within the borders of South Africa provided that expenses related to their attendance do not exceed two thousand five hundred rand (R2 500) per person per day. The number of municipal officials attending such conferences and workshops must be limited, see below. The National Treasury may periodically review this amount.
- ✓ Employees must make every effort to take advantage of early registration no late registration should be approved as this might have additional costs
- ✓ Conferences abroad must be limited to its ultimate minimum or none at all.
- ✓ Utilise municipal and/or provincial office facilities for conferences, meetings, strategic planning sessions etc. where an appropriate venue exists within the municipal jurisdiction.
- ✓ Limit or stop overseas trips and the delegations going on such trips unless a tangible and clear benefit to the local community and performance of essential service provision can be established beforehand
- ✓ The number of employees travelling to conferences or meetings on official duty for the same matter is limited to three (3) employees, unless otherwise approved in advance by the **relevant** accounting officer, and one transport to be utilized and payable by council's budget.

## 5.2.9 Office Furnishing

- ✓ When new persons are elected or appointed. Use of existing facilities and equipment is encouraged.
- ✓ Office furnishing, when required, should be contained to minimal costs, avoiding elaborate and expensive furniture or equipment.
- ✓ Buying of laptop should be discouraged unless it is proved that an official carries work home and duly authorized to attend meetings and might have to do presentations in such meetings

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- ✓ Buying of laptops for interns should stop immediately.

### 5.2.10 Staff study, perks and suspension costs

- ✓ Training attended by employees and councillors of municipalities must be organized on site.
- ✓ Expenditure associated with overseas study tours by councillors or officials must be reduced and preferably stopped.
- ✓ Overtime policy must be developed
- ✓ Encourage staff to take time off to make up for overtime worked.
- ✓ Planned overtime must be submitted to management for consideration on a monthly basis and no payment should be made if planned overtime is not motivated by an SED
- ✓ Unplanned overtime worked must be motivated and approved by management, and no payment should be made if unplanned overtime is not motivated by an SED
- ✓ Costs associated with long-standing staff suspensions and legal costs associated with not following due processes when suspending and dismissing staff must be eliminated otherwise S32 of the MFMA should be implemented if it is proved that a supervisor did not consider reasonable steps in suspending the subordinate.
- ✓ Constant management of staff, improvements in productivity levels and feedback must be provided to all staff.

### 5.2.11 **Struitinasation** of Requisitions

Each department head shall, prior to providing for any expenditure in respect of any operational, capital items in the budget of his or her department's budget, and in any event no later than 28 February prepare and submit to the Strategic Executive Director: Budget and Treasury Office a business plan relating to such item, which business plan shall contain the following information regarding such item:

- A full description;
- Its purpose;
- The expected beneficiaries ;
- Alternative means of providing the same benefits;



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- An acquisition, construction and implementation plan ( as applicable);
- The expected useful life;
- The principal cost;
- The sources of funding;
- A schedule of financing costs;
- A maintenance plan;
- A schedule of maintenance costs;
- A depreciation schedule; and
- Insurance costs.

## 6. ENFORCEMENT PROCEDURES

6.1 Failure to implement or comply with this policy may result in any official of the municipality or political bearer that has authorized or incurred any expenditure contrary to those stipulated herein being held liable for financial misconduct as set out in chapter 15 of the MFMA.

## 7. DICLOSURES OF COST CONTAINMENT MEASURES

7.1 Cost containment measures applied by the municipality must be included in the in-year budget report and the annual cost saving must be disclosed in the annual report. Is this measurable? What if I comply and you do not know?

7.2 The measures implemented and the aggregate amount saved per quarter, together with the report of reprioritization of cost savings on the implementation of the cost containment measure must be submitted to the municipal council for review.

7.3 Such reports must be placed to municipal website within 5 days after council meeting.

## 8. IMPLEMENTATION & REVIEW PROCESS

8.1 The policy will be implemented with immediate effect after approval by the municipal council.

8.2 The policy will be reviewed at least annually and will be part of budget related policies, it will also be reviewed when an update is issued by National or Provincial Treasury.

## 9. SHORT TITLE

9.1 This policy shall be called the “Cost Containment Policy of the Newcastle Municipality”